

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-09
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 AGRE-00 /132 W
-----121186 131115Z /23

R 122210Z JUL 78

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 8771

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L SECTION 1 OF 2 QUITO 4806

E.O. 11652: GDS

TAGS: EINV, EMIN, ENRG, EC

SUBJECT: ALL QUIET ON THE NORTHWEST FRONT

REFS: A) QUITO 3197, B) QUITO 3875

SUMMARY: THE RECENT OFFER OF NORTHWEST (NW) TO SELL ITS NATURAL GAS CONCESSION RIGHTS IN THE GULF OF GUAYAQUIL HAS NOT YET DRAWN AN OFFICIAL GOE RESPONSE. NATURAL RESOURCES MINISTER SEMBLANTES RECENTLY DETAILED FOR THE FIRST TIME IN PUBLIC THE ROOT CAUSES OF THE DISPUTE BETWEEN THE GOE AND NW. OTHER FOREIGN FIRMS HAVE MADE PROPOSALS TO DEVELOP THE GAS DEPOSITS. NW AND THE GOE MAY YET REACH AN AGREEMENT OR NW COULD LEAVE ECUADOR. END SUMMARY.

1. NW'S FORMAL OFFER TO REACH A SETTLEMENT WITH THE GOE OR TO TURN OVER ITS CONCESSION RIGHTS IN RETURN FOR REIMBURSEMENT OF ITS INVESTMENT TO DATE, PRESENTED ON JUNE 6 IN A LETTER TO SEMBLANTES (REF B), HAS YET TO EVOKE A WRITTEN OR ORAL RESPONSE FROM THE GOE, ACCORDING TO NW REPRESENTATIVES IN A DISCUSSION WITH AN EMBOFF ON JULY 11. (SOME INFORMED SOURCES REPORT, HOWEVER, THAT THE GOE HAS DECIDED TO CONTINUE SEEKING WITH NW A MUTUALLY ACCEPTABLE
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USE OF THE GAS.)

2. IN A MOVE THAT MAY BE CONNECTED WITH NW'S OFFER TO LEAVE, REPRESENTATIVES FROM THE DIRECTORATE GENERAL OF HYDROCARBONS (DGH), AN AGENCY OF THE NATURAL RESOURCES MINISTRY, RECENTLY BEGAN AN AUDIT OF NW'S INVESTMENT ACTIVITIES IN ECUADOR FROM THE BEGINNING OF 1977 TO

JUNE 30, 1978. THE DGH HAS NOT ATTRIBUTED THE AUDIT TO NW'S OFFER.

3. IN A PUBLIC SEMINAR ON PETROLEUM HELD LAST WEEK, SEMBLANTES SPOKE IN UNPRECEDENTED DETAIL ABOUT THE GOE STALEMATE WITH NW. ACCORDING TO PRESS REPORTS, SEMBLANTES CITED DIFFERENCES REGARDING USE OF THE GAS AS THE MAIN ISSUE BETWEEN THE GOE AND NW. THE MINISTER ACKNOWLEDGED THAT WORLD PRICES OF AMMONIA AND UREA HAVE DETERIORATED GRADUALLY SINCE 1973, AND THAT MANY PRODUCING PLANTS IN EUROPE AND THE U.S. CLOSED DOWN IN 1976 AND 1977. FOR THIS REASONJN SEMBLANTES SAID, NW HAS PROPOSED PIPING THE GAS ASHORE TO GUAYAQUIL FOR INDUSTRIAL CONSUMPTION, IN SUBSTITUTION FOR PETROLEUM DERIVATIVES. SEMBLANTES THEN OUTLINED THE MINISTRY'S THREE-PART COUNTER-PROPOSAL, WHICH WOULD DEVOTE ABOUT 15 TO 16 MILLION CUBIC FEET OF GAS DAILY TO THE DIRECT REDUCTION PROCESS AT THE PROPOSED STEEL MILL TO BE BUILT BY THE GOE AGENCY ECUASIDER; ANOTHER 35 TO 40 MILLION CUBIC FEET DAILY FOR A 1000-METRIC-TON (MT) AMMONIA/UREA PLANT; AND THE REMAINDER TO ELECTRICAL AND INDUSTRIAL ENTERPRISES. SEMBLANTES NOTED THAT IF SUCH A LARGE AMMONIA/UREA PLANT WERE NOT PROFITABLE UNDER CURRENT CONDITIONS, IT WOULD STILL HAVE THE ADVANTAGE OF CONTRIBUTING TO DOMESTIC AGRICULTURAL DEVELOPMENT.

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4. OTHER FOREIGN FIRMS HAVE RECENTLY MADE OFFERS TO THE MINISTRY TO DEVELOP THE GAS DEPOSITS. BESIDES THE PROPOSAL BY A GROUP OF FRENCH FIRMS TO WORK IN CONJUNCTION WITH NW, WHICH FOR THE MOMENT APPEARS DORMANT (REF A), THE U.S. FIRM N-REN, HAS PROPOSED BUILDING A 300-SHORT-TON/DAY UREA PLANT. N-REN, WHICH HAS CONSULTED WITH NW FOR SOME TIME, IS CURRENTLY AWAITING THE OUTCOME OF THE NEGOTIATIONS BETWEEN NW AND THE GOE. OKC, ANOTHER U.S. FIRM, ALSO RECENTLY INFORMED THE MINISTRY OF ITS WILLINGNESS TO UNDERTAKE EXPLOITATION OF THE GAS. THE ITALIAN ENGINEERING AND CONSTRUCTION FIRM SNAMPROGETTI, A SUBSIDIARY OF THE ITALIAN NATIONAL HYDROCARBONS ENTITY (ENI), AFTER TOUCHING BASE WITH NW, MET ON JULY 5 WITH SEMBLANTES TO PUSH THE SALE OF A 50-MT/DAY UREA PILOT PLANT WHICH IS NOW OPERATING IN MILAN. ENI IS ALSO INTERESTED IN SELLING THE PILOT PLANT'S SPECIAL TECHNOLOGY WHICH PRODUCES UREA DIRECTLY FROM METHANE GAS, RATHER THAN THROUGH THE INTERMEDIATE AMMONIA-PRODUCTION STAGE.

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C O N F I D E N T I A L SECTION 2 OF 2 QUITO 4806

5. COMMENT: SEMBLANTES' REMARKS WERE NOTABLE FOR THE ABSENCE OF THREATS AGAINST NW, AS WELL AS THE CONFIRMATION OF THE GOE'S DISPOSITION TO USE THE NATURAL GAS FOR PURPOSES BESIDES AMMONIA/UREA PRODUCTION. IT IS ALSO SIGNIFICANT THAT SEMBLANTES MADE PUBLIC NOTE OF THE DEPRESSED AMMONIA/UREA WORLD MARKET. THE THREE USES FOR THE GAS PROPOSED BY THE GOE COULD STILL SERVE AS A BASIS FOR FUTURE NEGOTIATION. AS MENTIONED PREVIOUSLY, NW HAS ALREADY PROPOSED PIPING THE GAS ASHORE FOR INDUSTRIAL PURPOSES, WHILE THE ALLOTMENT OF GAS TOWARDS THE STEEL PLANT--WHICH MAY NEVER BE BUILT--WOULD ALSO BE ACCEPTABLE TO NW BECAUSE NW WOULD NOT HAVE TO PARTICIPATE IN THE FACILITY'S FUNDING. THE MAIN POINT OF CONTENTION IS THE MINISTER'S PROPOSAL TO BUILD A 1,000-MT/DAY AMMONIA/UREA PLANT. NW MIGHT BE WILLING TO PARTICIPATE PARTIALLY IN A SMALL MONEY-LOSING FACILITY DESIGNED TO COVER DOMESTIC NEEDS, WITH THE GOE PICKING UP MOST OF THE TAB, BUT THE SCALE ENVISAGED BY NW FOR SUCH A PLANT IS FAR BELOW CURRENT GOE DESIRES. NW ESTIMATES THE PRESENT ECUADOREAN YEARLY CONSUMPTION OF UREA AT 28,000 MT, WITH THE CONSUMPTION OF AMMONIA MUCH SMALLER. OF SOME 5,000 MT OF AMMONIA IMPORTED INTO ECUADOR IN 1972, OVER HALF WAS STILL UNSOLD AT THE END OF 1976. THUS, AN
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APPROXIMATELY 78-MT/DAY PLANT WOULD BE SUFFICIENT TO COVER CURRENT LOCAL NEEDS. TO WHAT EXTENT BUILDING A

LARGER PRODUCING PLANT WOULD STIMULATE LOCAL AMMONIA/UREA
CONSUMPTION IS UNQUANTIFIABLE FOR THE MOMENT.

6. WITH THE APPROACH OF THE JULY 16 FIRST ROUND OF A
LIKELY TWO-ROUND PRESIDENTIAL ELECTION PROCESS, THE
NEGOTIATIONS BETWEEN NW AND THE GOE MAY REMAIN AT THE
CURRENT IMPASSE. THE LAMEDUCK MILITARY MAY WELL BEQUEATH
THE PROBLEM TO THE INCOMING CIVILIAN REGIME, ALTHOUGH
PRESUMABLY THE MILITARY WOULD LIKE TO AVOID THAT EMBARRASS-
MENT. NW, HAVING WAITED SO LONG FOR A GOE DECISION, MAY
BE WILLING TO WAIT SOME MONTHS LONGER IN THE HOPE THAT
THE NEW CIVILIAN DECISION-MAKERS WILL PROVE MORE
AMENABLE TO NW'S PROPOSALS. ALL OF THE MAJOR CANDIDATES
HAVE CRITICIZED THE GOE'S BUMBLING ON THE PROJECT, AND
WHILE THEY HAVE OFFERED NO SPECIFIC
SOLUTIONS, THERE IS NO REASON TO THINK THAT THE NEW
GOVERNMENT WILL BE ANY MORE SYMPATHETIC TO NW'S PROBLEMS
THAN ITS PREDECESSOR.
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Message Attributes

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